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FISCAL REPORT

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BOSTON FACES TOUGH BUDGET CHALLENGE IN FISCAL 1990

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The City of Boston faces a potential budget problem in fiscal 1990 of between \$20 and \$40 million based on various revenue and expenditure scenarios. Smaller revenue growth next year will not support the same increases in spending allowed over the past four years. Boston must start now to downsize government, more efficiently utilize its resources and increase its own-source revenues. Level-funding state aid for Boston, which represents 40.7% of this year's recurring revenue growth, will result in employee layoffs and cuts in city and school services. Determining the full extent of the problem will require further analysis. To provide a fiscal perspective to understand the problem, this report looks at the City's general fund expenditure and revenue plan for fiscal 1989 including the proposed supplementary budgets and shows the changes from the comparable fiscal 1988 plan.

The City's general fund revenues increased overall by \$64.0 million or 5.2% in fiscal 1989. Recurring revenues increased by \$78.8 million, 81.1% of which is due to increases in the property tax levy (40.4%) and state aid (40.7%). Of concern for next year is that both these revenue sources are not expected to increase at the same rate. State aid, which increased by \$32.1 million this year, may be level-funded. The property tax levy increased by \$31.9 million, of which two-thirds is attributable to new growth. The slowdown in the economy and especially the condominium market indicates that the level of new growth may not be as strong next year. Expenditures this year also grew by \$64.0 million or 5.2%. However, a closer look reveals that departmental spending increased by \$84.9 million or 9.1%. That was made possible by a decrease of \$20.9 million or 6.8% in non-departmental spending in areas such as pensions, debt service and tax abatements. However, next year at least half of these accounts are expected to increase.

The problem facing Boston is how to balance departmental spending, which grew by \$84.9 million this year, with a smaller revenue increase next year. Heightening the problem are the significant cost increases expected because of collective bargaining contracts, a new solid waste disposal contract, public education and health insurance. The Mayor's response to this challenge will be disclosed on April 12, 1989, when he presents his fiscal 1990 budget recommendations to the City Council.

EXPENDITURES

Expenditures estimated for fiscal 1989 total \$1.3 billion, an increase of \$64.0 million or 5.2% over last year. This moderate increase was achieved, even though departmental budgets increased by 9.1%, because of reductions in fixed charges and the overlay deficit account. City, hospital, county and school budgets increased by \$84.9 million over the last year. Appropriations for hospitals increased by 10.6% followed by a 10.0% increase for schools, a 8.1% increase for city departments and a 5.9% increase for Suffolk County. The growth in departmental budgets is primarily attributable to the rise in personal service costs due to collective bargaining contracts, overtime usage and employee benefits. School appropriations increased, in part, because of a decrease in discretionary federal and state grant revenues available for operations.

Fixed costs for Boston decreased by \$14.1 million or 4.8%, principally due to cuts in pension and debt service requirements over the last year. Pension costs decreased by \$8.4 million or 6.6% as a result of negotiations with the Public Employee Retirement Administration and acceptance of the Pension Reform Act which established a full funding schedule for Boston. Pension costs for 1990 are not clear at this time, however, future year costs are expected to gradually increase. Debt service this year decreased by \$4.2 million or 4.9% due to the City issuing no bonds or notes in fiscal 1988 and most of fiscal 1989. The slowdown in borrowing occurred because actual capital spending has been less than originally planned. Debt service, according to the capital budget, will increase by \$5.3 million in fiscal 1990. The overlay reserve for abatements decreased by \$2.6 million or 9.7%, reflecting the Administration's confidence in its property values and an expectation of fewer abatements. That account will increase next year as the levy increases. State assessments increased to \$49.4 million, up by \$1.6 million or 3.4%, most of which was due to an increase in the MBTA assessment.

WHERE THE MONEY GOES

	Fiscal 1988	Fiscal 1989	% of Total	Change FY88-89	% Change
Departmental	\$932,689,364	\$1,017,587,109	78.2%	\$84,897,745	9.1%
City	435,777,048	471,231,551	36.2%	35,454,503	8.1%
Health & Hospitals	157,453,000	174,200,000	13.4%	16,747,000	10.6%
County	27,859,316	29,510,558 *	2.3%	1,651,242	5.9%
School	311,600,000	342,645,000	26.3%	31,045,000	10.0%
Fixed Charges	\$294,161,972	\$280,078,414	21.5%	(\$14,083,558)	-4.8%
Pensions & Annuities	127,663,092	119,225,094	9.2%	(8,437,998)	-6.6%
Debt Service	85,879,978	81,660,711	6.3%	(4,219,267)	-4.9%
Tax Title & Audit Costs	1,450,000	1,630,000	0.1%	180,000	12.4%
State Assessments	47,782,457	49,386,335	3.8%	1,603,878	3.4%
Overlay Reserve	26,886,445	24,276,274	1.9%	(2,610,171)	-9.7%
Reserve Fund	4,500,000	3,900,000	0.3%	(600,000)	-13.3%
Overlay Deficit	\$11,066,436	\$4,226,321	0.3%	(\$6,840,115)	-61.8%
Total Estimated Expenditures	\$1,237,917,772	\$1,301,891,844	100.0%	\$63,974,072	5.2%

* County reflects a full year expenditure budget. However, the Courthouse Custodian and County Buildings are supported by the State as of October 1, 1988.

In addition to fixed costs, the overlay deficit account, which represents abatement payments in excess of the original overlay reserve for a levy year, decreased by \$6.8 million or 61.8% in fiscal 1989. More realistic property assessments and final efforts to pay abatements of prior years in fiscal 1988 accounted for the decrease. A modest decrease is expected in this account next year.

REVENUES

Revenues available to support Boston's operating budget totaled \$1.3 billion for fiscal 1989, an increase of \$64.0 million or 5.2% over the last year. Boston continues to rely on the property tax levy as its largest revenue source, which at \$483.7 million represents 37.2% of total estimated receipts in fiscal 1989. This year the levy increased by \$31.9 million or 7.0%. The normal 2 1/2% increase accounted for \$11.2 million

GROWTH IN TAX LEVY

	Fiscal 1986	Fiscal 1987	Fiscal 1988	Fiscal 1989
Prior Year Levy	\$363,222,216	\$394,592,935	\$421,916,232	\$451,873,316
2 1/2% Levy Growth	9,044,544	9,832,687	10,434,470	11,150,603
New Growth	22,326,175	17,490,610	19,522,614	20,701,568
Total	\$394,592,935	\$421,916,232	\$451,873,316	\$483,725,487
Increase	\$31,370,719	\$27,323,297	\$29,957,084	\$31,852,171
% Increase	8.6%	6.9%	7.1%	7.0%
New Growth as % of Levy Increase	71.2%	64.0%	65.2%	65.0%

of the total, while new growth accounted for \$20.7 million or 65.0% of the levy increase. Over the last four years, the levy has increased by an average of 7.4% each year, with new growth responsible for approximately two-thirds of that addition. The property tax levy is at the maximum allowable limit and could not have been increased further this year except by an override.

WHERE THE MONEY COMES FROM

	Fiscal 1988	Fiscal 1989	% of Total	Change FY88-89	% Change
Property Tax Revenue	\$451,873,316	\$483,725,487	37.2%	\$31,852,171	7.0%
Departmental Revenue	\$267,129,814	\$279,327,023	21.5%	\$12,197,209	4.6%
City	\$111,090,265	\$120,001,505	9.2%	8,911,240	8.0%
Parking Fines	36,000,000	39,800,000	3.1%	3,800,000	10.6%
PILOTS	16,805,865	18,286,692	1.4%	1,480,827	8.8%
Interest on Investments	17,200,000	18,000,000	1.4%	800,000	4.7%
Penalties/Interest & Assessments	7,850,000	6,525,000	0.5%	(1,325,000)	-16.9%
Licenses & Permits	18,933,000	19,735,000	1.5%	802,000	4.2%
Other City	14,301,400	17,654,813	1.4%	3,353,413	23.4%
Health & Hospitals	145,750,000	155,000,000	11.9%	9,250,000	6.3%
Schools	661,100	592,600	.0%	(68,500)	-10.4%
County	9,628,449	3,732,918 *	0.3%	(5,895,531)	-61.2%
State Revenue	\$431,485,075	\$463,543,960	35.6%	\$32,058,885	7.4%
Chapter 70	66,870,066	67,677,955	5.2%	807,889	1.2%
Additional Assistance	265,705,619	283,780,431	21.8%	18,074,812	6.8%
Lottery	18,321,451	25,328,750	1.9%	7,007,299	38.2%
Retired Teacher Pensions	22,900,000	23,000,000	1.8%	100,000	0.4%
School Construction	15,689,823	16,148,433	1.2%	458,610	2.9%
Transportation of Pupils	10,068,310	10,491,004	0.8%	422,694	4.2%
121-A's	26,685,000	31,352,600	2.4%	4,667,600	17.5%
Miscellaneous State	5,244,806	5,764,787	0.4%	519,981	9.9%
Parking Meter Fees	6,900,000	9,300,000	0.7%	2,400,000	34.8%
Cemetery Trustee	500,000	700,000	0.1%	200,000	40.0%
Motor Vehicle/Boat Excise Tax	18,520,000	16,015,200	1.2%	(2,504,800)	-13.5%
Aircraft Excise Tax	13,750,000	12,400,000	1.0%	(1,350,000)	-9.8%
Hotel/Motel Excise Tax	11,500,000	13,500,000	1.0%	2,000,000	17.4%
Federal Revenue Sharing	610,000	0	0.0%	(\$610,000)	-100.0%
Free Cash	13,500,000	16,035,000	1.2%	\$2,535,000	18.8%
Total Recurring Revenue	\$1,215,768,205	\$1,294,546,670	99.4%	\$78,778,465	6.5%
Nonrecurring Revenue	\$22,149,567	\$7,345,174	0.6%	(\$14,804,393)	-66.8%
Excess Pension Fund Interest	11,031,657	0	0.0%	(11,031,657)	-100.0%
Sale of Property	3,700,000	2,000,000	0.2%	(1,700,000)	-45.9%
Settlements	7,417,910	5,345,174	0.4%	(2,072,736)	-27.9%
Total Available for Operations	\$1,237,917,772	\$1,301,891,844	100.0%	\$63,974,072	5.2%

* County revenue projections reflect one quarter for the Courthouse Custodian and County Buildings, which are supported by the State as of October 1, 1988.

State aid remains the second largest revenue source, representing 35.6% of total operational revenues in fiscal 1989, up from 22.0% in fiscal 1981. This year, state aid totaled \$463.5 million, an increase of \$32.1 million or 7.4% over last year. This increase represents 40.7% of the total new recurring operational revenues in fiscal 1989. As shown here, Boston has become more dependent on state aid to support its operations. In each of the last four fiscal years, Boston has received no less than \$25.0 million in additional state aid.

STATE AID FOR BOSTON

	Fiscal 1985	Fiscal 1986	Fiscal 1987	Fiscal 1988	Fiscal 1989
State Aid *	\$336,404,862	\$361,768,753	\$406,419,816	\$431,485,075	\$463,543,960
Increase	NA	\$25,363,891	\$44,651,063	\$25,065,259	\$32,058,885
% Increase	NA		7.5%	12.3%	6.2% 7.4%

*Net state aid less offsets.

Departmental revenue in Boston totaled \$279.3 million in fiscal 1989, an increase of \$12.2 million or 4.6%. City departmental revenue increased by \$8.9 million or 8.0%, in part due to the expectation that the City will collect \$39.8 million in parking fines this year, an increase of \$3.8 million or 10.6%. Payments in-lieu-of-tax agreements increased by \$1.5 million or 8.8%. The Health and Hospitals Department was projected to collect \$155.0 million this year, an increase of \$9.3 million or 6.3%. Approximately \$76.3 million or 49.2% of that total is medicaid reimbursements. Boston now is not expected to receive the full amount from the State before the end of the fiscal year. Suffolk County receipts decreased by \$5.9 million or 61.2% as a consequence of the State's assumption of responsibility for the court buildings in Suffolk County.

Other revenues available to the City include parking meter fees which are expected to generate \$9.3 million this year, an increase of \$2.4 million. The City's aircraft excise tax and hotel/motel excise tax together will produce \$25.9 million, a slight increase over last year. The motor vehicle excise tax was estimated at \$16.0 million, down \$2.5 million from the prior year. However, actual receipts may exceed \$19.0 million.

Boston continues to rely, although to a lesser extent than last year, on nonrecurring revenues to fund operational expenses. Such revenues include the sale of city property and settlements. This year Boston will use \$7.3 million of nonrecurring revenue for operations compared to \$22.1 million in fiscal 1988.

CONCLUSION

This comparison of the fiscal 1988 and 1989 budgets provides a framework that explains why Boston faces a potential \$20 to \$40 million budget problem next year. The possibility of no increase next year in state aid, which represents 40.7% of the recurring revenue growth this year, is the primary reason. A property tax levy that may increase slightly less than this year and uncertainty about medicaid reimbursements contribute to the problem. Other existing revenues are expected to increase only moderately next year. On the expenditure side, increases are expected due to collective bargaining contracts and a jump in health insurance costs. A new solid waste disposal contract will cost at least an additional \$6.0 million. The Superintendent has proposed a \$40 million increase in his preliminary school budget and debt service costs will increase in excess of \$5 million. Also, the City's subsidy of the hospital budget will likely increase.

To balance next year's budget, Boston must first take steps to reduce its spending, utilize its available resources more efficiently and increase its own source revenues. Since about 70% of departmental appropriations are attributable to salaries and employee benefits, spending reductions will result in employee layoffs and cuts in city and school services. The Mayor has submitted to the Council a supplementary budget of \$16.0 million to be funded by free cash. Departmental operating budgets should absorb some of this cost during the remainder of the year. Every dollar of the City's certified free cash of \$16.9 million saved this year can be used to support the budget next year. The Bureau will issue a second report analyzing in more detail the scope of Boston's fiscal problem in fiscal 1990.